

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PM-03 H-01 L-02 PA-01 PRS-01

USIA-06 AGR-05 /111 W

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R 230420Z JAN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7472

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

US MISSION EC BRUSSELS

US MISSION GENEVA 1504

US MISSION PARIS OECD

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TAGS: EGEN JA

SUBJ: JAPAN'S ECONOMIC PERFORMANCE, POLICIES AND PROSPECTS

REF: A. TOKYO A-740 B. TOKYO 0606 C. TOKYO 0877

SUMMARY: AVAILABILITY OF GOJ YEAR-END BALANCE OF PAYMENTS DATA AFFORDS OPPORTUNITY TO ASSESS JAPAN'S ECONOMIC PERFORMANCE AND POLICY STANCE IN 1974, PROSPECTS FOR NEAR TERM FUTURE AND IMPLICATIONS FOR U.S. END SUMMARY.

1. DESPITE FACT THAT QUADRUPLD OIL PRICES ADDED AN ESTIMATED \$13 BILLION TO ITS IMPORT BILL, JAPAN MANAGED TO RUN A \$1.7 BILLION TRADE SURPLUS (F.O.B./F.O.B.) IN 1974 (COMPARED WITH A \$3.7 BILLION SURPLUS IN 1973) AND REDUCE ITS OVERALL BALANCE OF PAYMENTS DEFICIT FROM \$10 BILLION IN 1973 TO \$6.8 BILLION IN 1974. PRINCIPAL FACTORS CONTRIBUTING TO THIS RESULT WERE (A) STAGNATING DOMESTIC DEMAND, HELD DOWN BY TIGHT GOJ RESTRICTIONS ON CREDIT AVAILABILITY, WHICH DAMPENED IMPORTS AND FORCED DOMESTIC PRODUCERS TO SEEK EXPORT OUTLETS FOR THEIR GOODS; (B) PRICE INCREASES AVERAGING OVER 30 PERCENT IN CERTAIN AREAS OF HIGH EXPORT PERFORMANCE BY JAPAN, NOTABLY STEEL, FERTILIZERS AND OTHER CHEMICALS; AND (C) CAPITAL CONTROLS WHICH RESULTED IN DECLINE OF NET LONG-TERM CAPITAL OUTFLOW FROM \$9.75 BILLION IN 1973 TO SOME \$4 BILLION IN 1974.

2. DOMESTICALLY ALL EYES ARE NOW ON UPCOMING "SPRING OFFENSIVE" OF WAGE NEGOTIATIONS AND THE DANGER THAT EXCESSIVE INCREASES MAY GENERATE UNMANAGEABLE COST-PUSH INFLATIONARY PRESSURES. TO COUNTER LABOR'S ANTICIPATED DEMAND FOR WAGE HIKE TO MATCH RISING PRICES, GOJ HAS SET TARGET (REPORTED REF A) OF HOLDING CONSUMER PRICE INDEX TO MAXIMUM 15 PERCENT INCREASE DURING CURRENT FISCAL YEAR (ENDING MARCH 31, 1975). EXPRESSING CAUTIOUS OPTIMISM THAT THIS GOAL CAN BE MET WITH CONTINUATION OF LIMITED OFFICIAL USE

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PRESENT DEMAND RESTRAINT POLICIES, GOJ LEADERS HAVE DECLARED IT IS NOT YET APPROPRIATE FOR GOJ TO SWITCH TO EXPANSIONARY POLICIES SUCH AS THOSE ANNOUNCED BY U.S. AND WESTERN EUROPEAN COUNTRIES (REPORTED REF. B), ALTHOUGH THERE HAS BEEN SOME EASING OF CREDIT RESTRICTIONS IN AREAS OF SPECIAL HARDSHIP.

3. BUSINESS RECESSION CONTINUES TO DEEPEN MEANWHILE. AS

REPORTED REF (C), UNEMPLOYMENT IS NOW ESTIMATED TO HAVE TOPPED 2 PERCENT AND ONE MILLION PERSONS. MANY MORE, NOT COUNTED IN THESE FIGURES, HAVE LEFT THE LABOR FORCE OR ARE BEING KEPT ON BY FIRMS ALTHOUGH SUBSTANTIALLY UNDEREMPLOYED. RECENT STATEMENTS BY PM MIKI AND DEPUTY PM FUKUDA HAVE INDICATED ACUTE AWARENESS OF MOUNTING PRESSURES FOR SOME EASING OF RESTRICTIONS WHILE REAFFIRMING THAT GENERAL POLICY OF RESTRAINT WILL BE MAINTAINED AT LEAST INTO NEW FISCAL YEAR.

4. IMPLICATIONS FOR U.S.: RELATIVE TIMING OF ECONOMIC RECOVERY IN U.S. AND JAPAN WILL BE OF KEY IMPORTANCE. RAPID RECOVERY IN U.S. WHILE RECESSION CONTINUES IN JAPAN COULD LEAD TO REAPPEARANCE OF SUBSTANTIAL BILATERAL TRADE INBALANCE WITH ACCOMPANYING FRICTIONS. JAPANESE DEMAND FOR U.S. FOOD AND AGRICULTURAL PRODUCTS WOULD PROBABLY REMAIN STRONG; HOWEVER, OTHER U.S. SALES WOULD SUFFER AND FURTHER POSTPONEMENT OF CANCELLATION OF BIG-TICKET PURCHASES (E.G., JUMBO JETS) WOULD BE LIKELY. HOWEVER, GOJ DOES HAVE POLICY TOOLS FOR REFLATION READILY AVAILABLE (E.G., EASING OF CREDIT RESTRICTIONS, IMPLEMENTATION OF DEFERRED PUBLIC WORKS PROJECTS) AND INTENDS TO BEGIN GRADUAL SWING INTO EXPANSIONARY POLICIES BY LATE SPRING IN ANY EVENT IF INFLATIONARY WAGE HIKES ARE AVOIDED.
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